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TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2008

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AUDITORS' REPORT

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November 25, 2008

Independent Auditors' Report

Members of the Authority Board
Tawas City Downtown Development Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Tawas City Downtown Development Authority, Iosco County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements, as listed in the index. These financial statements are the responsibility of the Tawas City Downtown Development Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Tawas City Downtown Development Authority, Iosco County, Michigan, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Tawas City Downtown Development Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. The discussion focuses on the Authority's primary government.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$87,830.
- The Authority's total net assets decreased by \$122,239.
- The Authority's governmental fund reported combined ending fund balance of \$17,830 this year, shows a decrease of \$122,239. The entire amount is available for spending (*unreserved fund balance*).

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Authority as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Authority's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Authority as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of the governmental activities of the Authority at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Authority with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Authority.



With this report, capital assets are listed for the Tawas City Downtown Development Authority. These assets are comprised solely of land owned by the Authority. These assets total \$70,000.

Fund Financial Statements

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority operates under one fund which is considered a *Governmental Fund*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Authority are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Authority's *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

Government -Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the Tawas City Downtown Development Authority:

Net Assets Summary

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Current Assets	\$ 17,830	\$ 140,069
Capital Assets	<u>70,000</u>	<u>70,000</u>
Total Assets	<u>87,830</u>	<u>210,069</u>
Liabilities	<u>0</u>	<u>0</u>
Net Assets		
Invested in Capital Assets	70,000	70,000
Unrestricted	<u>17,830</u>	<u>140,069</u>
Total Net Assets	<u>\$ 87,830</u>	<u>\$ 210,069</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets of the Tawas City Downtown Development Authority:

Generally speaking, the Authority's net assets represent the difference between assets and liabilities.

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Program Expenses:		
Community and Economic Development	\$ <u>1,631</u>	\$ <u>1,260</u>
General Revenues:		
Transfers from primary government	0	53,400
Transfers to primary government	(122,989)	(58,313)
Investment earnings	<u>2,381</u>	<u>5,703</u>
Total General Revenue and Transfers	<u>(120,608)</u>	<u>790</u>
Change in Net Asset	(122,239)	(470)
Beginning Net Assets	<u>210,069</u>	<u>210,539</u>
Ending Net Assets	<u><u>\$ 87,830</u></u>	<u><u>\$ 210,069</u></u>

Governmental Activities

The *Statement of Activities* illustrates the expense incurred and revenue received.

Total governmental activities reveal expenses of \$1,631 for community and economic development.

Financial Analysis of Authority Fund

As noted earlier in this report, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the Authority are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The Authority operates under one fund which is considered a major governmental fund.

Budgetary Highlights

The Authority's budget is prepared according to Michigan law. During the fiscal year ended June 30, 2008, the Authority amended its budget a couple of times. The most significant amendment was to increase the amount originally budgeted for operating transfers out.

Capital Asset

Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

Capital Assets – Government Activities beginning and ending balance was \$70,000.

Economic Factors and Next Year's Budget and Rates

The Tawas City Downtown Development Authority staff work together to maintain revenue sources and control expenditures. For fiscal year 2008/2009 the Downtown Development Authority was reactivated and budgeted to collect \$14,000 in property taxes.

The major expense for the Authority is transfers to the primary government and various community and economic development expenditures.

The Tawas City Downtown Development Authority staff will continue to monitor revenues and expenditures due to ongoing economic conditions.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Tawas City Clerk, P.O. Box 568, Tawas City, Michigan 48764-0568.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 17,830
Noncurrent Assets:	
Capital Assets, Net (Note 3)	<u>70,000</u>
Total Assets	<u>87,830</u>
<u>Liabilities</u>	<u>0</u>
<u>Net Assets</u>	
Invested in Capital Assets	70,000
Unrestricted	<u>17,830</u>
Total Net Assets	<u>\$ 87,830</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
					Primary Government
<u>Function/Program</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
<u>Primary Government</u>					
Governmental Activities:					
Community and Economic Development	\$ <u>1,631</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(1,631)</u>
General Revenue:					
Transfers to Primary Government					(122,989)
Interest and Investment Earnings					<u>2,381</u>
Total General Revenue and Transfers					<u>(120,608)</u>
Change in Net Assets					(122,239)
Net Assets - Beginning					<u>210,069</u>
Net Assets - Ending					\$ <u>87,830</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2008

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ <u>17,830</u>
<u>LIABILITIES AND FUND EQUITY</u>	
<u>Liabilities</u>	\$ 0
<u>Fund Equity</u>	
Fund Balances:	
Unreserved:	
Undesignated, Reported In:	
General Fund	<u>17,830</u>
Total Liabilities and Fund Equity	\$ <u>17,830</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2008

Total Governmental Fund Balances	\$ 17,830
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:	
Capital Asset Cost	<u>70,000</u>
Total Net Assets - Governmental Activities	<u>\$ 87,830</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
For the Year Ended June 30, 2008

	<u>General Fund</u>
<u>Revenue</u>	
Interest and Rentals	\$ 2,381
<u>Expenditures</u>	
Current:	
Community and Economic Development	<u>1,631</u>
Excess of Revenue Over Expenditures	750
<u>Other Financing Uses</u>	
Transfers to Primary Government	<u>(122,989)</u>
Excess of Revenue Over (Under) Expenditures and Other Uses	(122,239)
Fund Balances - Beginning of Year	<u>140,069</u>
Fund Balances - End of Year	<u>\$ 17,830</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas City Downtown Development Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of Authority Operations

The Tawas City Downtown Development Authority operates under the supervision and control of a Board consisting of the Chief Executive Officer of Tawas City and eight (8) members as provided by Act 197. The Authority was established to eliminate the causes of property value deterioration and promote economic growth in the business district of the City of Tawas City.

These financial statements have been combined with the City of Tawas City's financial statements, and are presented as a discretely presented component unit of the City.

B. Basis of Presentation

The Authority's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets presents the financial condition of the governmental activities of the Authority at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Authority, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Authority.

C. Fund Accounting

The Authority uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There is one category of funds: governmental.

Governmental Funds

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Authority's major governmental fund:

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

General Fund - This fund accounts for all financial resources. Revenues are derived primarily from interest and transfers from the primary government.

D. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Authority are included on the statement of net assets.

Fund Financial Statements

The governmental fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, available means expected to be received within 60 days of the fiscal year-end.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the Authority's revenue sources are considered to be both measurable and available at year-end.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

G. Receivables

Receivables generally consist of accounts (fees), property taxes, special assessments, and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at June 30, 2008 was \$0.

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

L. Budgets and Budgetary Accounting

The Tawas City Downtown Development Authority normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to June 1, the City Clerk submits to the Authority Board a proposed operating budget for the fiscal year commencing the following July 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Authority Board throughout the operating year.

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Budgets and Budgetary Accounting (Continued)

The Authority adopts budgets for the General Fund.

The budgets of the Authority are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Authority Board.

M. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	\$ <u>17,830</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Investments in Financial Institution Pooled Funds	\$ <u>17,830</u>

As of June 30, 2008, the Authority had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government: Investment Pools	\$ <u>17,830</u>	Daily

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The Authority's investment pool is unrated.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, by; limiting investments to the types of securities approved in the Authority's investment policy which is in accordance with State law.

Foreign Currency Risk

The Authority's investment policy does not address foreign currency risk.

Investments

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 07/01/07	Additions	Deletions	Balance 06/30/08
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>70,000</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>70,000</u>

NOTE 4 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters. The Authority has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS CITY DOWNTOWN DEVELOPMENT AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Interest and Rentals	\$ 3,000	\$ 3,000	\$ 2,381	\$ (619)
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>1,500</u>	<u>2,500</u>	<u>1,631</u>	<u>869</u>
Excess of Revenue Over Expenditures	1,500	500	750	250
<u>Other Financing Uses</u>				
Transfers to Primary Government	<u>(54,700)</u>	<u>(123,000)</u>	<u>(122,989)</u>	<u>11</u>
Excess of Revenue Over (Under) Expenditures and Other Uses	(53,200)	(122,500)	(122,239)	261
Fund Balances - Beginning of Year	<u>140,069</u>	<u>140,069</u>	<u>140,069</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 86,869</u>	<u>\$ 17,569</u>	<u>\$ 17,830</u>	<u>\$ 261</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
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Herman A. Bertuleit

November 25, 2008

Management and Members of the Authority Board
Tawas City Downtown Development Authority
Iosco County, Michigan

We have conducted the audit of the financial statements of the governmental activities and the major fund of the Tawas City Downtown Development Authority as of and for the year ended June 30, 2008 and have issued our report dated November 25, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Authority during the audit and met with management on November 25, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Authority Board and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Appendix 1

Communication to Those Charged with Governance

Responsibilities Under Generally Accepted Auditing Standards

As stated in our engagement letter dated March 16, 2007, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated March 16, 2007.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on November 25, 2008.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Appendix 1
Communication to Those Charged with Governance

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix II

Management Comments

In planning and performing our audit of the financial statements of Tawas City Downtown Development Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Tawas City Downtown Development Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tawas City Downtown Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tawas City Downtown Development Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiencies in internal control that we consider to be material weaknesses.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Tawas City Downtown Development Authority's financial statements. However, if at any point in the audit we as auditors are part of the Authority's control system for producing reliable financial statements, auditing standards indicate that the Authority has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

SEGREGATION OF DUTIES IN THE PERFORMANCE OF FUNCTIONS

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the Authority's staff prohibits complete adherence to this concept, we believe that implementing the following practice could greatly improve existing internal control without impairing efficiency. We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts. In addition, we recommend that the bank reconciliations be reviewed by an individual other than the one preparing them on a monthly basis and indicate this review with initials or signature.

Appendix II Management Comments

View of Responsible Officials:

FINANCIAL STATEMENT PREPARATION CONTROLS

The Tawas City Downtown Development Authority has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Authority to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

SEGREGATION OF DUTIES

The Tawas City Downtown Development Authority has determined that the cost of implementing all of the recommendations outweigh the benefits to the Authority. However, the Tawas City Clerk will implement the review of bank reconciliations and bank statements effective immediately.

The Tawas City Downtown Development Authority's responses to the findings in our audit are described above. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Separation of Duties in the Performance of Functions				X
Financial Statement Preparation				X